(b)(1) (b)(3)

Hizballah is pursuing a dual-track strategy of becoming more involved in Lebanese politics, while enhancing its militant posture in Lebanon and abroad. The group has broadened its dialogue with the Lebanese Government, expanded ties to legitimate political players, registered as an official political party, and announced its participation later this summer in Lebanon's first legislative election in 20 years. Nevertheless, Hizballah remains thoroughly committed to its fundamentalist and anti-Western agenda. The group has redoubled its military efforts in southern Lebanon against Israel. has expanded its terrorist capabilities around the world, and has shown increasing interest in building ties to Islamic extremists outside Lebanon. We anticipate that Hizballah's leaders will continue this twopronged political strategy as it allows them to gain political legitimacy without sacrificing their radical objectives.

Adapting to a New Environment

The reconstituting of government authority in Beirut and the strong Syrian backing for the implementation of the Ta'if national reconciliation accord has brought unprecedented pressures to bear on Hizballah. The group, which had been operating almost unfettered by Lebanese authorities in West Beirut and its southern suburbs since 1984, has removed its armed combatants from the capital's streets and relocated significant numbers of fighters and arms to southern Lebanon and the Bekaa Valley. These moves were prompted by the Lebanese Government's success in reuniting the capital and breaking the power of the other militias. Hizballah has even allowed Lebanese military units into its strongholds in southern Lebanon. In addition, Hizballah-like other major militias—has been under pressure from Syria to participate in the Lebanese Government.

Expanding Political Role

Hizballah has worked over the past year to establish a voice in domestic politics and improve its relations with Syria in response to the new order in post-civilwar Lebanon. This policy direction was charted principally by Abbas Musawi, who was elected Secretary

General of Hizballah's Leadership Council, the group's supreme governing body, in May 1991 and by Husayn Khalil, head of Hizballah's political bureau. Advocates of expanding relations with other Lebanese factions and sensitive to Syrian interests, Musawi and Khalil took the initiative to open a dialogue with senior Lebanese officials. Musawi's meeting with then Prime Minister Karami in January 1992 was the first time a Hizballah chief has been received by a Lebanese head of government. In the past year, Hizballah officials have held discussions with the Lebanese Government on various issues, such as security arrangements for Beirut, assimilation of some Hizballah fighters into the Lebanese Armed Forces (LAF), guerrilla operations in the south, and economic aid for the Shia community.

As part of its effort to break out of its political isolation, Hizballah also expanded its dialogue with other Lebanese political groups. Hizballah officials have held high-level meetings since Musawi's election with several Lebanese leftist and nationalist parties, including the Druze-dominated Progressive Socialist Party, the Syrian Socialist Nationalist Party, and the Popular Nasserite Organization.

Hizbal-

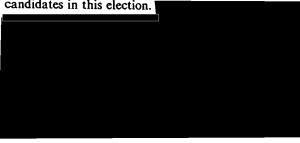
lah's political contacts have also included its adversaries during the civil war. An extraordinary meeting late last year between Hizballah spiritual leader Fadlallah and the leader of the Christian Phalange Party bolstered Hizballah's claim that it was a legitimate political organization and no longer a radical fringe group.

Musawi also engineered the recent licensing of the group as an official political party. Until 1991, Hizballah rejected the notion of licensing the party,

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arguing that this would be tantamount to accepting a political system it has always denounced as corrupt.

The assassination of Abbas Musawi in southern Lebanon in February 1992 and the subsequent election of hardliner Hasan Nasrallah as Secretary General has not appeared to change the group's interest in political participation. Less than two weeks after Musawi was killed, Nasrallah publicly reaffirmed Hizballah's possible interest in participating in the upcoming legislative election. Nasrallah announced on 30 June that the group would enter candidates in this election.



Keeping Up the Fight in Lebanon . . .

Hizballah's tentative moves to become more active in Lebanon's political process have not deterred the group from maintaining its militant agenda in Lebanon and abroad. Despite Beirut's implementation of a militia disarmament campaign, Hizballah has moved rapidly over the past year to preserve its militia capabilities. A December 1990 cease-fire with the mainstream Amal group ended six months of intra-Shia strife east of Sidon and permitted Hizballah to shift the focus of its military operations to southern Lebanon. Hizballah then undertook a public campaign to dissuade the Lebanese Government from disarming its militiamen, with Hizballah leaders trumpeting the nonmilitia nature of its forces. By referring to them as Islamic resistance strugglers

fighting to liberate the Israeli-occupied south, Hizballah made it domestically unpalatable for Lebanese leaders to crack down on the group. Divided by sectarian loyalties and reluctant to act against Hizballah without Syrian approval, the Lebanese Government has failed to move against Hizballah, and in some cases has adopted the group's position concerning the legitimate right of the "resistance" to maintain arms.

Hizballah has become the most prominent guerrilla force in Lebanon in the wake of Beirut's defanging of the Palestinians in July 1991. The LAF's success in subduing Palestinian forces in Sidon, Lebanon's third-largest city, dramatically reduced Palestinian ability to conduct operations against Israel. Evidently fearing that Beirut would move against it next, Hizballah turned its anti-Israeli rhetoric into deeds. In the two months immediately following the action against the Palestinians, Hizballah carried out more operations against Israeli and Israeli-backed forces than it had during the past three years combined. Since September 1991, Hizballah has maintained its aggressive

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military campaign, conducting almost 10 attacks per month.

The implications of Hizballah's strengthened position in southern Lebanon were dramatically underscored in the aftermath of Musawi's assassination in February 1992. Within 24 hours, Hizballah launched katyusha rockets into northern Israel and the Israelioccupied security zone. The group also effectively mobilized to meet the Israeli military incursion that followed the rocket attacks. Hizballah suffered only

seven fatalities during the Israeli operation,

Hizballah attacks have continued at a high rate since Musawi's assassination, raising tensions along the Israeli-Lebanese border. Although the frequency of Hizballah attacks against the Army of South Lebanon (ASL) and Israeli forces in southern Lebanon subsided somewhat after the Israeli incursion, by historical standards Hizballah almost certainly will set a record for attacks in 1992. The new cycle of Hizballah-inspired violence in May, followed by Israeli air raids against Hizballah camps near the Syrian border, heightened regional fears of an Israeli-Syrian confrontation. Hizballah's commitment to maintaining its aggressive military campaign in southern Lebanon was underscored in late May by a machinegun attack on an ASL outpost. The attack occurred only days after assurances from Iranian Foreign Minister Velayati to Lebanese leaders that Iran would use its influence to calm the situation in the south.

... Building Ties to Extremists Abroad...

Hizballah also is building ties to fundamentalist
groups throughout the region in an effort to promote
its revolutionary dogma and confront Western interests. Both Musawi and Nasrallah have publicly stated

that Hizballah can help nurture other Islamic fundamentalist groups, particularly those in nations deemed pro-West by Hizballah. In the past year, Hizballah officials have traveled throughout the region seeking to build ties to a wide array of extremist groups.

According to articles from Hizballah's magazine Hizballah is keying on radical elements in Tunisia, Kuwait, Saudi Arabia, Egypt, Pakistan, and Yemen:

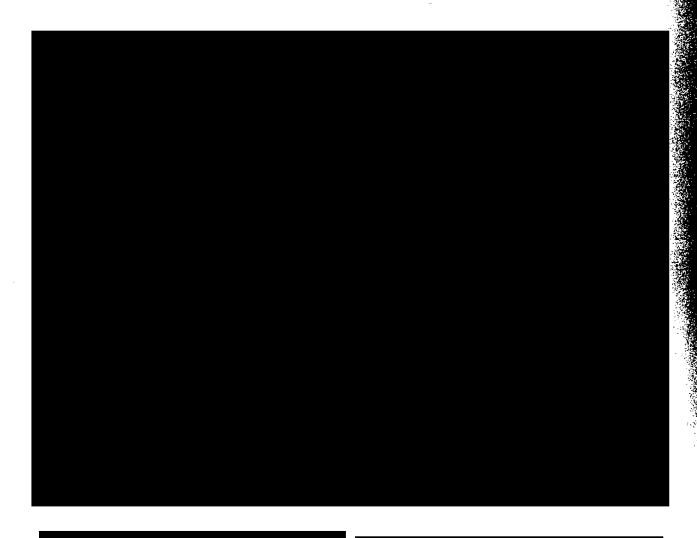
We believe some of Hizballah's support to these groups is taking place at the behest of Iran, which is trying to expand its ties to extremist Islamic groups without jeopardizing its efforts to improve its political ties in the region.

Most of Hizballah's assistance has been in the form of political and financial help, and the group also may be providing military training for Islamic extremists.



Segret





... and Maintaining the Terrorist Card

Hizballah terrorists carried out the 17 March 1992 car-bomb attack against the Israeli Embassy in Argentina, which took place one month after Secretary General Musawi was assassinated in southern Lebanon Master terrorist Imad Mughniyah's Islamic Jihad Organization (IJO)—an element of Hizballah with a long history of spectacular terrorist operations—claimed responsibility for the operation less than 24 hours after the attack.

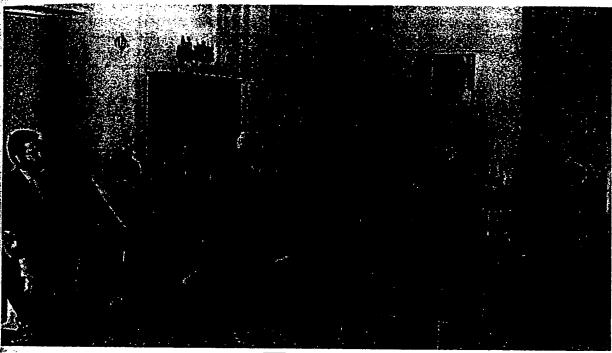
Hizballah holds the United States equally responsible with Israel for Musawi's assassination and has threatened to retaliate against American interests.

Hizballah elements began planning a retaliatory operation against US interests in Lebanon shortly after Musawi's death. Hizballah executed two successful operations last year against American targets in Lebanon—the 29 October missile attack against the US Embassy in

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Hizballah Leadership Council meets President Rafsanjani.

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Beirut and the 8 November car-bomb attack that destroyed the administration building at the American University of Beirut. Iran, which began supporting low-level operations against US interests in 1991, would be likely to support Hizballah's efforts to retaliate against the United States, as long as Tehran would not be directly implicated in the attack.

Hizballah's efforts to expand its international support infrastructure have enhanced the group's ability to target US and Israeli interests, particularly in nontraditional venues such as Eastern Europe, Latin America, and Africa.



Hizballah leaders, in fact, may become more deeply involved in terrorism as a result of the election of Hasan Nasrallah to replace Abbas Musawi. Unlike Musawi, Nasrallah was directly involved in many Hizballah terrorist operations, including hostage taking, airline hijackings, and attacks against Lebanese rivals. Most of Hizballah's spectacular terrorist attacks have been undertaken by autonomous security groups in an effort to shield the party's political apparatus from responsibility, but Nasrallah's terrorist credentials may lead him to bring terrorist-related matters under the control of the Leadership Council.

Continuing the Mix of Politics and Militancy Hizballah is likely to continue its current dual-track policy of expanding its role in domestic politics while pursuing its radical agenda.

In addition,

Hizballah is well positioned to exploit the current economic crisis. The group almost certainly will use its relative wealth to expand social services, thus winning more support from poor Muslims.

Nasrallah and Hizballah remain committed to the goal of an Islamic Republic in Lebanon but realize that it is not achievable in the near term.

n. Although Hizballah is seeking representation in the legislature, the group continues to criticize the Ta'if accord. Nasrallah explicitly said that representation in the National Assembly did not mean Hizballah would participate in the Lebanese Government.

The election of Hizballah members to the Lebanese legislature would give the group greater political legitimacy and increase its clout with government institutions. Hizballah representation in the National

Assembly would, for the first time, give the group a voice in a legitimate Lebanese institution and help undercut its image as a band of terrorists. Moreover, the group would be better positioned to seek the assimilation of some of its militiamen into the LAF, and it would be likely to press for the appointment of some members into the civil service, especially the foreign service and agencies involved in economic reconstruction. Hizballah's representation in the legislature, particularly if it won seats for southern Lebanon, also would provide the group a new pulpit from which to defend its guerrilla operations against Israel.

Despite the potential benefits, Hizballah's participation in the Lebanese political order risks alienating extremists within the group who oppose reconciliation with the Lebanese Government. Nasrallah's reputation as a hardliner will help dissuade hardcore elements from bolting the group in the short term, but the chances for a split will increase if many Lebanese Shia eventually come to view Hizballah according to the traditional rubric of Lebanese parties. As Hizballah steps up its participation in electoral politics, Nasrallah, in fact, may feel compelled to try to placate hardliners by stepping up the anti-Israeli resistance activities in southern Lebanon and perhaps conducting terrorist attacks abroad.